Intern. J. of Research in Marketing 30 (2013) 358–367

Contents lists available at ScienceDirect

Intern. J. of Research in Marketing

journal homepage: www.elsevier.com/locate/ijresmar

So you want to delight your customers: The perils of ignoring heterogeneity in customer evaluations of discretionary preferential treatments

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ARTICLE INFO

Article history:
First received in 9, June 2011 and was under review for 9 months
Available online 20 June 2013

Guest Editor: Marnik G. Dekimpe
Area editor: Werner J. Reinartz

Keywords:
Discretionary preferential treatment
Preference heterogeneity
Justification
Imposition
Visibility
Surprise
Need for distinction
Negotiation proneness

ABSTRACT

Many firms assume that customers like to feel special and to receive discretionary preferential treatments (DPT). This research argues that the reality is more complicated: the same preferential treatment may delight one customer but enrage or embarrass another. To help companies align their DPT with their customers' preferences, this article identifies four dimensions along which consumers positively or negatively evaluate DPT: justification, imposition, visibility, and surprise. This article then introduces customer heterogeneity in the form of two individual traits that moderate DPT evaluations. Through two studies, the article shows that distinction seekers prefer visible rewards that impose on other customers, but negotiators prefer unjustified, non-surprising privileges. Finally, by tying consumer preferences to two readily available variables (age and gender), this article concludes with a set of practical guidelines for the companies that hope to align their DPT strategy with customer profiles.

1. Introduction

One of the authors went to a fancy restaurant with a friend to celebrate a special event. Because the restaurant owner personally knew one of them, the staff went to great lengths to please them: they were seated at a central table, received exquisite attention and lavish service, and were offered special dishes that were not on the menu. The benefits were so great that the two became the center of attention (and envy) of the entire restaurant. The author was so embarrassed that she swore never to go to that restaurant again; her friend, instead, was delighted.

On another occasion, one of the authors bought an expensive piece of luggage in an airport store just before entering a long security queue in which hundreds of passengers were waiting. A store employee offered him a note to hand to the airport security personnel, which allowed him and his wife to proceed through the handicapped aisle and skip a 90-minute wait in line. His wife was thrilled by this special treatment. When he recalls walking down the handicapped aisle, though, bypassing hundreds of passengers, he refers to it as "the walk of shame."

Both examples are typical illustrations of preferential treatments that backfire and trigger feelings of guilt and embarrassment. These examples raise a key question about the efficient use of preferential treatments: what type of preferential treatments should privileged consumers receive? We examine this question in relation to a specific, mostly overlooked type of preferential treatment, namely, non-contractual preferential treatments. That is, existing research mostly considers preferential treatments in the context of a contractual reward process, involving loyalty programs with explicitly stated rules and policies (e.g., Drèze & Nunes, 2009; Kivetz & Simonson, 2003; Nunes & Drèze, 2006; Roehm, Pullins, & Roehm, 2002). However, some preferential treatments are granted at the whim of the company, which alone determines the recipients, nature, and value of the rewards (Kumar & Shah, 2004), often at the discretion of its frontline employees. For example, ACCOR hotels' desk managers offer non-contractual privileges, such as room upgrades, free breakfast, or dedicated parking spaces to selected clients in addition to the corporate privileges offered by the ACCOR loyalty program. These non-contractual forms of preferential treatment are *discretionary preferential treatments* (DPT), which we define as the selective granting of non-contractual advantages to a limited number of customers. In essence, DPT (a) is *selective*, (b) comes *in addition* to contractual preferential treatment, (c) involves an *informal* granting process (i.e., does not rely on publicly stated rules and policies), and (d) allows for the decision *flexibility* of the front-line employees.

Unlike contractual preferential treatment, DPT offers various advantages that make it an interesting managerial tool. Because its rules are not publicly stated, DPT (1) cannot produce liabilities such as ongoing obligations to recipients (Shugan, 2005), (2) eliminates

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http://dx.doi.org/10.1016/j.ijresmar.2013.03.004

the potential for demotions to lower levels of service and their negative consumer outcomes (Wagner, Hennig-Thurau, & Rudolph, 2009), and (3) increases customization flexibility, which can stimulate long-term loyalty (Shugan, 2005). In addition, because DPT is not just a function of the volume purchased, it can be used to treat selected customers even better, thereby stimulating a feeling of being treated as special (O'Brien & Jones, 1995). Finally, because frontline employees have more latitude to grant it, DPT strengthens the employee–customer relationship, which stimulates customer share, price premiums, and sales growth (Palmatier, Scheer, Houston, Evans, & Gopalakrishna, 2007).

Despite these benefits and its managerial relevance, little research considers how consumers value DPT. This research gap is problematic because customers' reactions to DPT are heterogeneous. The same DPT, such as being favored by restaurant staff or allowed to cut a long waiting line, might delight one customer but embarrass another. If companies ignore the heterogeneity in customers' preferences for DPT, they might offer rewards that are not valued by the targeted customers—or worse, that elicit negative reactions—and squander valuable marketing resources (Reinartz & Kumar, 2000). Firms thus must ask the question that guides our research: what type of DPT should be offered and does the answer vary predictably across consumers? To answer this question, we organize this manuscript as follows.

In the first section, we develop the theoretical underpinnings for this research. We identify four key dimensions along which customers evaluate DPT: *justification* (i.e., whether DPT is warranted by an existing relationship between the firm and the customer), *imposition* (whether DPT detrimentally affects other customers), *visibility*, and *surprise*. Building on equity theory (Adams, 1965), we argue that most people prefer DPTs that are justified, non-imposing, non-visible, and surprising. In addition, we rely on social comparison theory (Festinger, 1954) to hypothesize that these general preference tendencies are moderated by the consumer's *need for distinction* and *negotiation proneness*; consumers who like to be distinguished from others prefer imposing and visible DPT, whereas consumers who prefer to negotiate favor unjustified, non-surprising DPT.

In the subsequent two sections, we report the results of two studies that were run in the context of a hotel restaurant (Study 1) and a retail store (Study 2), in which we formally test the hypotheses. Most of the main effects and moderators receive confirmation. We also show that the reported heterogeneity in customers' preferences for various DPT can be partly anticipated by two readily available variables: age and gender. Building on these findings, we provide a set of practical guidelines for companies and conclude with some suggestions for further research.

2. Theoretical framework

2.1. Dimensions of DPT evaluations

Discretionary preferential treatments provide non-contractual advantages to a limited number of customers. Unlike their contractual counterparts (e.g., rewards earned through loyalty programs), DPTs entail (1) a greater degree of distinction between customers, in that they appear in addition to contractual rewards (Kumar & Shah, 2004), and (2) a discretionary nature, such that their granting process does not rely on preexisting rules or conditions. These differences suggest four dimensions of DPT that are particularly worthy of investigation.

First, because DPTs are added on to contractual preferential treatments, but companies' resources are limited, they may mandate smaller resource allocations to non-privileged consumers to allow more resources to be devoted to the privileged ones (Kamakura, Mittal, de Rosa, & Mazzon, 2002). DPTs can thus be granted to the detriment of non-privileged consumers, which makes *imposition on others* the first dimension worthy of investigation.

Second, the DPT process is informal, such that DPT may be granted arbitrarily. This potential for arbitrary decisions raises the question of DPT *justification*, that is, whether the DPTs are warranted by the nature of the relationship between the customer and the company.

Third, the discretionary DPT process also allows the frontline employees to make DPT decisions on the fly and possibly in front of an audience of non-privileged customers. This social setting enables both the privileged and the non-privileged customers to compare what they receive with what others receive, thereby making *visibility* another central dimension of DPT.

Fourth and finally, because DPTs do not rely on publicly stated rules and conditions, they leave room for the unexpected and have the potential to create delighting experiences. *Surprise* represents the fourth dimension of DPT that we study.

In turn, we use these four dimensions to define the type of DPT that consumers encounter. With equity theory (Adams, 1963), we predict the customers' general preferences (e.g., whether most customers prefer surprising or unsurprising DPT). We then build on social comparison theory (Festinger, 1954) to introduce moderators that mitigate these general tendencies.

2.2. Preferences for DPT dimensions

2.2.1. Equity theory

According to equity theory (Adams, 1965), participants in social exchange relationships compare their outcomes from the exchange with their inputs into it (internal equity) as well as the balance between their own outcome/input ratio and those of significant others (external equity). If the outcome/input ratios of partners appear unequal, inequity exists. The greater the inequity (over- or under-reward), the more distress the participant feels.

In a consumption setting, under-rewards tend to create feelings of resentment (Lapidus & Pinkerton, 1995), whereas over-rewards prompt the suspicion that companies are employing manipulation tactics to induce specific behaviors (e.g., encourage spending). The perception of such manipulative intent may result in a boomerang effect, whereby the consumers reject the encouraged behavior (e.g., Clee & Wicklund, 1980). Either way, people tend to prefer situations that they perceive to be equitable.

Because DPTs establish unequal levels of treatment among customers, they drive both privileged and non-privileged customers' attention toward the perceived inequity of their rewards. Equity theory (Adams, 1965) is thus a particularly relevant framework for understanding how consumers evaluate the four dimensions of DPT.

2.2.2. Justification

In general, justification refers to the presence or absence of any valid grounds for an act or course of action. Because DPT generally falls within the scope of a relationship between the firm and the customer (Gwinner, Gremler, & Bitner, 1998), it is justified (unjustified) when it has been warranted (not warranted) by the nature of their relationship. Unjustified DPTs create an imbalance in the consumers' outcome/input ratios, such that they should generate more distress than justified DPT (Adams, 1965).

Unjustified DPT might also suggest that the company is attempting to induce specific behaviors (e.g., buy more expensive items than planned). For instance, a consumer offered a free drink at his or her first visit to a restaurant might experience an undesirable feeling of indebtedness. Such preferential treatment might be appreciated, but it would have created a more positive feeling had this suspicion not been aroused. Therefore, unjustified DPT could not only generate distress but could also result in consumer inferences of manipulative intent by companies. In a consumption setting, awareness of this manipulative intent generates negative reactions, such as irritation